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TAX·FEATURES

Social Welfare Outlays Dominate Federal Government Expenditures

Welfare Reform: Will It Be Different This Time Around?

Welfare reform has much in common with 17-year cicadas. Both hibernate for long periods of time, suddenly appear and make a lot of noise, and then fade away without accomplishing much. Welfare reform was last considered seriously in the early 1970s when Richard Nixon proposed his Family Assistance Plan. Now, about 17 years later, Congress and the White House are again trying to reform the welfare system.

There is a broad consensus that the existing system is costly, does not give low-income people adequate work incentives, and targets its benefits poorly. There is widespread agreement that parental responsibility should be fostered by work and child support requirements. Reformers see welfare as part of a "contract" between the government and its citizens. The welfare recipients' obligations are to acquire work skills, accept an available job, and share in the financial support of their children. The government's obligations are to enable low-income persons to become self-sufficient by providing financial assistance, supporting services, and job training.

Reformers see welfare as part of a "contract" between the government and its citizens.

Translating this consensus into specific legislation is a difficult task. Many congressional liberals want to use welfare reform to create new entitlements and to increase Federal spending. Conservatives believe that enhancing benefits would discourage people from becoming self-supporting and would perpetuate welfare dependency.

What's Wrong with the Existing Welfare System?

Welfare is a costly system that has not eliminated poverty in the United States. Welfare expenditures now amount to more than $100 billion a year, yet more than 30 million Americans remain below the government's official poverty line. The argument that

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Governments in the United States paid out more than $670 billion for social welfare programs in fiscal 1984 (latest officially reported). This represented nearly 53 percent of all Federal, state, and local expenditures, according to economists at the Tax Foundation.

Social welfare outlays in 1984 totaled $672 billion—enough to give every man, woman and child in the United States $2,801, according to data recently compiled by the Social Security Administration. This was 5 percent higher than 1983 and more than 4 1/2 times the amount spent as recently as 1970.

The 5 percent advance in spending reported for 1984 was modest by recent standards. During the 1960s social welfare spending rose at an annual rate of nearly 11 percent a year; during the 1970s the rate jumped to almost 13 percent annually. Since 1980 annual growth has averaged just over 8 percent.

Emerging Federal Role

Financing of social welfare programs has gradually shifted more and more toward the Federal government, as compared to state and local units. In 1984, Federal expenditures represented over 62 percent of the total, up from 48 percent in 1960.

Public social welfare programs, as defined by the Social Security Administration, include social security and public employee retirement, Medicare, Medicaid and cash payments under public assistance, unemployment compensation benefits, health, veterans' services, housing, education, and others.

OASDHI Leads the Pack

The largest single social welfare program—Old Age, Survivors, Disability, and Hospital Insurance (OASDHI)—has grown more rapidly than any other social welfare program. Spending for this program now claims more than a third of all social welfare outlays, Tax Foundation economists say.

OASDHI payments in 1984, totaling $239 billion, were six and one-half times their size in 1970. Under the OASDHI umbrella, social security taxes pay for Federal programs for retirement, survivor benefits, disability, and medical care. (According to the Federal budget for fiscal 1988, OASDHI outlays in fiscal 1988 are estimated at $298 billion, over 24 percent higher than in 1984, the latest year covered in the SSA tabulations.)

Education a Distant Second

Until the 1970s, the largest category of social welfare programs was public education. In 1976 education was shifted to second place, leaving OASDHI as the dominant social program. At $152 billion in fiscal 1984, education outlays amounted to 23 percent of all social welfare costs, down from 35 percent in 1970.

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(SOCIAL SPENDING, *from page 1*)

Social welfare spending grew much more rapidly than GNP between 1950 and 1976, when social expenditures reached a high of 19.5 percent of GNP, up from 8.2 percent in 1950. Since 1976, this ratio has moved up in some years, down in others, and in 1984 social welfare outlays amounted to 18.2 percent of GNP, down from 19.3 percent in 1983. Since the peak year of 1976, social welfare spending has increased at an annual rate of 9.2 percent a year, as compared to average GNP growth of 10.2 annually. Details in table below.

'85 Property Taxes Broke $100 Billion Mark

State and local property tax revenues broke the $100-billion barrier for the first time ever in fiscal year 1985 (latest reported), hitting $103.8 billion, more than twice the $51.2 billion they yielded ten years earlier.

Fiscal 1985 collections topped 1984 by $7.3 billion (7.6 percent), but failed to match property tax gains earlier in the 1980s. In 1985, nonproperty taxes grew by 10.0 percent.

Declining Role at State-Local Level

Property taxes lost their role as the single major tax source for states and localities in 1978, largely in the wake of California's Proposition 13. Before 1978, property taxes had provided more than 35 percent of all state and local government tax revenues. In the first two decades of the 20th century, they provided more than four-fifths of all state-local tax revenues. In 1985, property taxes made up 29.7 percent of these total taxes, the lowest percentage on record.

Much of the decline in the relative importance of property taxes has been filled by rising individual and corporate income taxes. These now make up more than 25 percent of state/local taxes, as compared with less than 20 percent in 1975. Individual income taxes during the decade grew at annual rates exceeding 12 percent; corporate taxes at more than 11 percent a year.

Another view of the declining role of property taxes since 1975 is seen by comparing their annual growth rate for the period (7.3 percent) with the sharply higher rate of increase in nonproperty taxes (10.6 percent). Since 1978, sales and gross receipts taxes have been the leading tax source for subnational governments. These levies provided 36.1 percent annually over the past ten years.

Major Source of Local Revenues

Despite its declining role, the property tax remains the leading tax revenue source for local governments. It provided 74 percent of the total in 1985. Although most states impose some type of property tax, the levies generally apply to a narrow base and furnish under 2 percent of total state tax monies.

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Social Welfare Expenditures under Public Programs By Source of Funds and Type

Selected Fiscal Years 1960–1984

(millions)

Item[a]	1960	1970	1980	1984[b]
Total expenditures	$52,293	$145,856	$492,796	$671,972
Social insurance	19,307	54,691	229,754	342,264
OASDHI	11,032	36,835	152,110	239,395
Public employee retirement	2,570	8,659	39,490	58,888
Unemployment insurance	2,830	3,820	18,326	16,104
Workmen's compensation	1,308	2,950	13,457	19,683
Public aid	4,101	16,488	71,799	89,871
Public assistance	4,042	14,434	44,888	61,000
Health and medical programs	4,464	9,907	27,919	37,864
Veterans' programs	5,479	9,078	21,466	26,127
Education	17,626	50,846	121,050	152,025
Elementary and secondary	15,109	38,632	87,150	110,018
Higher	2,191	9,907	26,176	32,643
Vocational and adult	298	2,144	7,375	9,118
Housing	177	701	7,210	10,374
Other social welfare[c]	1,139	4,145	13,598	13,447
From Federal funds, total	24,957	77,337	302,616	419,264
Social insurance	14,307	45,246	191,162	289,884
Public aid	2,117	9,649	48,667	57,666
Health and medical programs	1,737	4,775	12,688	16,496
Veterans' programs	5,367	8,952	21,254	25,882
Education	868	5,876	13,452	12,979
Housing	144	582	6,608	9,068
Other social welfare[c]	417	2,259	8,786	7,289
From state and local funds, total[a]	27,337	68,518	190,180	252,707
Social insurance	4,999	9,446	38,592	52,381
Public aid	1,984	6,839	23,133	32,206
Health and medical programs	2,727	5,132	15,231	21,368
Education	16,758	44,970	107,597	139,046
Other social welfare[c]	723	1,886	4,813	7,706
Percentage Distribution				
Total social welfare expenditures	100.0	100.0	100.0	100.0
Federal	47.7	53.0	61.5	62.4
State-local	52.3	47.0	38.5	37.6
Exhibit: total as a percent of GNP	10.3	14.7	18.5	18.2

[a] Subtotals include items not shown separately. Total financed from state and local funds includes minor amounts for veterans' and housing programs.
[b] Preliminary.
[c] Includes institutional care, child nutrition and welfare, vocational rehabilitation, and other social welfare programs not elsewhere classified.
Sources: *Facts and Figures on Government Finance* and recent data from Social Security Administration, Office of Research and Statistics.

Tax Features

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Tax Foundation
One Thomas Circle, N.W., Suite 500
Washington, D.C. 20005
(202) 822-9050

TAX FOUNDATION
ONE THOMAS CIRCLE, N.W., SUITE 500

WASHINGTON, DC 20005
TELEPHONE 202-822-9050

FEDERAL TAX POLICY MEMO

Editor: Edward A. Sprague, Senior Vice President—Program Planning and Tax Policy

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Employee Benefits and Retirement Savings Outlook

Summary

- Because of the persistent budget problem, Congress will continue to look closely at the tax treatment of employee benefits and retirement income for possible revenue increases.
- The "tax expenditure" concept facilitates attacks on employee benefits treatment even in areas where there is least application. A recent Congressional Budget Office study, for example, contends private pension plans and IRAs do raise retirement income but not national savings because the tax expenditure effect enlarges the Federal deficit.
- In the name of cutting back on overlapping retirement income benefits, Congress has imposed significant restrictions on IRAs, just as new evidence appears that IRAs have been making a positive contribution to personal savings.
- The emergence of a potentially very expensive expansion of Medicare, along with additional progressive taxes to finance it, poses a new threat to retirement income planning.

Despite pervasive changes in the treatment of employee benefits and retirement savings under the Tax Reform Act of 1986, Congress continues to eye this sector for possible new "reforms." The lengthy option list of tax increases prepared by the Joint Committee on Taxation in late June rounds up the usual suspects among employee benefits—repealing or limiting the exclusion of employer-provided health benefits and group term insurance, limiting cafeteria plans, restricting employer-provided meals and lodging, etc. In the pension and retirement savings area, the Joint Committee list goes light. The only significant item in revenue terms appears to be a proposed adjustment of the estate tax deduction for ESOPs.

Other listmakers are not so constrained, however. The Congressional Budget Office, for example, details the large revenue increments it says could be realized by lowering further the limits on contributions to qualified plans, by repealing 401k plans, or by imposing a 5 percent tax on investment income of qualified plans and IRAs. The 5 percent tax option would be imposed on the plan itself rather than on the beneficiaries and is said to raise $18 billion over a five-year period. It has received some attention as a practical way to tap the inside buildup of tax-free income in pension trusts and other retirement income plans. The same proposal, of course, could be applied to life insurance policies as well.

The Tax Expenditure Stigma

Short-term revenue considerations, heightened by the fiscal 1988 budget resolution, continue to drive tax policy. But whether or not taxes are increased this year, there is going to be continuing controversy over employee benefits and retirement savings simply because they are deemed to be such a significant part of the "tax expenditure" budget. In fact, the exclusion for contributions and earnings of employer-provided plans is said to be the single largest tax expenditure so categorized—$287 billion for the fiscal years 1988-1992. This column has taken issue with the concept of tax expenditures, particularly as applied to retirement savings—see Tax Foundation Working Paper, *Tax Treatment of Retirement Savings, December 1985*. But the regular listing of the tax expenditure budget and the large revenue "cost" of specific provisions considered outside of the "normal" tax structure cast official doubt over all such provisions, regardless of their merits. There is also a widespread presumption that retirement savings tax expenditures provide benefits primarily to upper-income groups.

CBO Study

The stigma is clearly evident in a recent Congressional Budget Office study, *Tax Policy for Pensions and Other Retirement Savings*, released in April 1987. This was requested by Senator Robert Dole in 1983 when he was Chairman of the Senate Finance Committee. We suspect he got considerably less than he asked for.

The study first raises some ruckus over the high revenue cost, on a tax expenditure basis, of excluding qualified plans and IRAs from current taxation. It concedes that the tax advantages of these plans do result in significantly

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higher income for retirees — an average of 14 percent more income for singles and 21 percent for couples — but claims there is little evidence that the plans raise personal savings rates. The study refers to the old conumdrum: does the higher return on tax-deferred savings encourage more of it or just displace other savings with less sacrifice in current consumption? According to CBO the empirical results are "still inconclusive."

CBO finds that pensions and IRAs contribute significantly to participants' wealth and this would represent greater *national* savings, as long as the government is not running a deficit or raising offsetting taxes on capital income. There's the tax expenditure stigma again. It seems that a good part of your pension or IRA contribution is not really your own income but revenue foregone by the Treasury. That, of course, was Senator Russell Long's complaint about the whole tax expenditure concept. At the core of it is the presumption that the government has claim to all the income in the first place, releasing its grasp only on that portion it allows you to keep. Though never so stated, this presumption creeps into official government reports and becomes part of the unspoken language of policy. It equates your pension or IRA contribution with any increase in government spending programs and makes your retirement savings part and parcel of the deficit problem. Income has been defined in a very specific way for filing your income tax return but quite another way for policy that may well affect your future income.

The CBO study then goes on to make some unexceptional observations about the distribution of pension benefits by income and job tenure. Long service workers under defined benefit plans and upper-income groups get the most. This is hardly surprising given overall pension plan participation and the propensity to save for retirement among income classes. Also, of course, the effect of integrating Social Security with private pension benefits does reduce pension benefits to some lower income retirees because they receive proportionally higher income replacement through Social Security.

The inference that CBO draws is that since the lower income retirees and short-term workers receive relatively less in the way of tax advantages, they "pay" for the advantages to others "in the form of higher tax rates, lower government spending or increased Federal debt" than otherwise would occur. Again note the underlying assumption of government's title to the income in the first place.

The CBO report claims that it offers only objective analysis and not recommendations. Yet it lists several legislative options all of which would either restrict further the tax treatment of pensions and IRAs (one is the 5 percent tax on plan investment income) or force a more even distribution of the tax advantages. It is also suggested that any tax increases that would result could be used to expand Social Security or Supplemental Security Income payments to the lower-income elderly.

The biggest problem with such studies is that they do not necessarily ask the right questions. CBO devotes 159 pages to the use—and in its view, abuse—of tax advantages but not one work as to how else we are going to encourage people to provide for their retirement in the uncertain economy of the next century.

They suggest that Social Security could be expanded at the expense of private retirement savings. In other words, government would do the providing. But Social Security has become a distrusted investment particularly among younger workers. There is no question that the gravy days are over and retirees in the 21st century will receive far lower returns in relation to past contributions. The system will have to build up massive and politically-difficult-to-maintain surpluses in the next 20 years to finance the baby-boomers' retirement.

Under the intermediate case (middle-range) assumptions of the Social Security trustees, OASDI benefits as a percentage of taxable payroll will increase from 10.9 percent currently to about 16 percent by the year 2030. According to an analysis by the Institute for Research in the Economics of Taxation, however, when the full cost of Medicare (including both the hospital and medical segments but not any new initiatives) is reflected, that 16 percent of payroll will be reached by approximately the year 2000, zooming to over 26 percent by 2030. What this says about the potential level of payroll taxes (and income taxes, too) is obvious. The message has gotten through that politicians are unlikely to adopt tax rates of such order just to support the old folks. Therefore, don't depend only on Social Security in your retirement planning. The "golden years" could turn out to be pretty lean.

Restricting Choice—Turnabout on IRAs

The approach to encouraging retirement savings that developed in the 1970s and early 1980s was to establish new or liberalized mechanisms to spread tax-deferred benefits around. Hence we had development of expanded HR 10 (Keogh) plans, simplified employee pensions, ESOPs, 401k plans and IRAs. These instruments were designed to reach segments of the population not covered or not adequately covered by qualified pension plans. After 1981, however, a backlash set in. There were concerns about overlapping tax benefits, lack of uniformity and, of course, the alleged large revenue cost of the tax advantages. Congress became less sympathetic to multiple choice benefits and in the Tax Reform Act of 1986 cracked down on the plans with tighter limits, restrictions on early distributions, stiffer anti-discrimination rules, etc. It diminished the latitude of 401k plans and did a complete about-face on IRAs, disallowing the current IRA deduction for upper-middle-and-above income groups who are covered by qualified plans.

This was a significant policy reversal because after 1981 IRAs quickly became the principal means, other than qualified plans, for individuals to avoid some of the income

tax bias against savings. By 1986 IRA assets had accumulated to an estimated $262 billion with well over 25 million participants. Total 1986 contributions, at about $45 billion, represented 39 percent of total personal savings last year. While the extent of IRA utilization does rise with income, they are quite popular among middle and upper-middle income groups who comprise the majority of participants.

The new limits will prevent pension plan participants with income over $40,000 from receiving a full deduction. According to CBO, about 40 percent of those who would have contributed to an IRA in 1988, based on past participation, will no longer be eligible for any deduction and an additional 12 percent would have a reduced deduction. Everyone, of course, can continue to make nondeductible IRA contributions that will still receive the benefit of tax deferral on investment earnings.

An unknown portion of those newly ineligible for full IRA deductions are pension plan participants who have not vested their benefits. The typical defined benefit plan still provides only ten-year cliff vesting. Although this will have to be liberalized in the future under terms of TRA '86, many employees in these times of high labor turnover can work several jobs and never vest their benefits. There was some discussion of this during the Senate consideration of TRA '86. But, in the end, Congress went ahead and denied full deductibility of IRAs for qualified plan participants regardless of vesting status. In this respect, the new restrictions go further than just eliminating the overlapping of tax-deferred benefits.

Contribution to Savings

The contribution of IRAs to overall personal savings has been disputed on the same grounds that CBO mentions with respect to qualified plans. In addition, of course, the $2,000 limit on individual annual contributions restricts the marginal savings potential. Tax reformers, such as Joseph Pechman of the Brookings Institution, are convinced that IRA accounts represent no more than a swapping of taxable assets for higher after-tax returns with no net gain to national savings.

Other research, however, indicates that IRAs may be making a much more positive contribution. A recent National Bureau of Economic Research study by Steven Venti and David Wise indicates that more than 70 percent of families with IRAs have incomes under $50,000, and an analysis of the savings patterns of participants showed "almost no substitution of IRAs for other savings." The study's authors believe that the overall personal savings rate has remained low because of reduced pension plan funding, and, if it were not for the IRAs, the overall personal rate would be even lower.

The rapid growth of IRA assets after 1981 would seem to lend support to the Venti-Wise thesis. Certainly, the widespread availability of an institutional discipline for long-term savings must have had some effect, too, in encouraging retirement planning. Logically, this should help stabilize the capital formation process, even if initial contributions did come out of other savings.

Some growth in IRA assets undoubtedly will continue even with the new restrictions, but individual choice has been narrowed. Venti and Wise estimate that overall IRA contributions will be 13–19 percent less in the years ahead than they would be without the TRA '86 cutback.

Mandating Benefits and Medicare

In the 1980s, it became the conventional wisdom that we were not about to embark on major new spending initiatives in domestic policy, both because of the continuing budget deficit problem and because the citizenry appeared to be voting for a lower profile of the Federal government in this respect. A way was found around the budget dilemma, however, to expand some benefits by simply mandating that employers to pay for them and/or provide them on a more uniform basis. This has been the pattern for certain health benefits for employees or ex-employees and, more broadly, in the pension area under TRA '86. A vast extension of mandated health benefits would occur under Senator Edward M. Kennedy's program, "Minimum Health Benefits for All Workers Act of 1987" (S. 1265).

And now drops another shoe. Congress is actively considering what would be undoubtedly the biggest direct government spending program expansion in domestic policy since the early 1970s. The cost of catastrophic health care legislation pending in both the House and Senate is estimated by the Treasury Department to run $64-70 billion per year by the year 2005. And this is without any drug benefits contained in the House bill.

To finance the expansion of hospital and other care for the elderly, Congress, for the first time, would turn to a means-tested mandatory tax on income, in addition to hiking the flat rate premium for Part B medical care. Such an approach was dictated by the absence of any spare revenues in the general fund and by an unwillingness to adopt additional, highly unpopular payroll tax increases. Nevertheless, the Treasury estimates that there still could be a revenue shortfall in meeting the added costs of the program of at least $20 billion annually by the year 2005. Based on past experience with starting new Federal transfer payment programs, this may be a very low estimate.

The means-tested tax, by itself, could be an eye-popper. Under the House measure, for instance, it would start at only $6,000 of adjusted gross income and rise to a temporary maximum of $1,160 per elderly couple at $28,000 of AGI. The supplemental tax, however, would increase every year in line with Medicare costs, presumably on an automatic basis without new legislation. By 1992, it is projected at a maximum of $1,916 per elderly couple, and by 2005, at *$8,000 in constant 1988 dollars*. Under either House or Senate bills, marginal income tax rates for the elderly would jump sharply, countermanding the intent of TRA '86.

It has been pointed out that a majority of the elderly now have private insurance coverage for catastrophic hospital expenses not covered by Medicare. But, instead of concentrating on ways to help those without private insurance, Congress is sweeping on to the grand total government solution that would, in effect, abolish private sector arrangements.

The President is threatening to veto expensive health care legislation, but clearly the forces for program expansion are on the move.

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One of the principal arguments for favorable tax treatment of employee benefits, such as for health plans and for retirement income plans in general, is that such arrangements are inherently more flexible and efficient than direct government spending programs. Of course, favorable tax treatment by itself does not assure full coverage of the population. Therein lies the justification for government imposed minimum standards, anti-discrimination rules, etc. At some point, multiplication of regulations, restrictions, and/or mandating of additional cost burdens on the employer can choke off the market response to benefit and retirement income needs. We may well be seeing this in the case of IRAs.

It is ironic that Congress is contemplating a vast and costly expansion of Medicare to be financed mainly by a progressive tax on retirees—whether or not they have had private insurance coverage and completely unrelated to their consumption of medical services—at a time when tax treatment of retirement income is being cut back, or threatened to be cut back further. This, if anything, is going to require much sharper planning by middle-income workers contemplating their retirement.

Big Deficit Gap Remains

The accompanying table illustrates starkly where the real Federal budget problem lies: spending outstripping tax resources. From a base of a little over $92 billion and 18 percent of gross national product in 1960, total outlays have exploded eleven-fold to over a trillion dollars in fiscal 1987. Spending grew much faster than the overall economy, peaking at 24.4 percent of GNP in fiscal 1983 before dropping back a bit to 23 percent this year.

Federal Spending and Receipts
As a Percent of Gross National Product
Fiscal Years 1960-1987

In the meantime, overall tax receipts, starting from the same base of just over 18 percent of GNP in 1960 have kept fairly even pace with the economy. There was a dip in receipts as a percent of GNP after the 1981 tax cuts, but by 1987 taxes were back up over 19 percent of GNP, about one-half percentage point higher than the average over the preceding 27 years.

The difference, of course, is the deficit which reached a post-war high of 6.3 percent of GNP in fiscal 1983 and an historic dollar high of $221 billion in fiscal 1986. Unless stringent fiscal restraint is applied, deficits close to $200 billion will persist into the 1990s.

It is well to remember how we got into this situation. Certainly on the basis of the post-war record, we are not undertaxed but overspent!

(WELFARE REFORM, *from page 1*)

poverty has persisted because the government has starved programs for the poor is not supported by the facts. Adjusted for inflation, the government is now spending twice as much on programs targeted to low-income persons as it did when Nixon proposed his Family Assistance Plan.

Evidence that welfare is not effective can be gleaned from the following anomalies:

- It *is said that* less than $50 billion *could* raise all poor persons above the poverty line. This is much less than the amount currently spent to aid the poor. *To do so, however, would require termination of assistance to the "near poor," persons already above the poverty level.*
- About two-thirds of the assistance to the poor is in the form of noncash benefits such as food stamps, medicaid, and subsidized housing. If these benefits were "cashed out," the government could give each poor family $8,000 a year, much more than it now gives them;
- The Census Bureau has reported that the current data distort the poverty picture. If noncash benefits were included as income, the poverty rate would fall below 10% and 11 million fewer persons would be identified as poor.
- The Advisory Commission on Intergovernmental Relations has found that for each dollar spent, the poverty gap—the difference between the income of the poor and the poverty level—is reduced by less than 50 cents. One reason for this inefficiency is that many welfare recipients are above the poverty line.

The welfare system was established at a time when poverty was concentrated among elderly Americans. That is no longer the case. Almost 40 percent of the poor are children, many of whom live with only one parent. As the face of poverty has changed, the effectiveness of programs aimed at alleviating financial distress has diminished. When welfare serves employment-age adults and their children, it runs the risk of discouraging work.

The "Welfare to Work" Reform

Welfare reform recognizes this changed composition of poverty by emphasizing that public assistance should be an interim measure until recipients are able to support themselves. Under proposals pending in Congress, welfare mothers with children over the age of three could be required to participate in work or training activities. Some bills would also provide increased child care and transportation assistance to enable low-income persons to get a job. States would be required to enforce child-support laws so that parents would not be able to avoid financial responsibility for their children.

These provisions show that today's welfare reform is far different from earlier versions. It was not long ago that "workfare"—the requirement that able welfare recipients take available jobs—was deemed a dirty word in some quarters. Now it is the centerpiece of efforts to overhaul the outmoded welfare system.

Yet the road to enacting reform is paved with proposals to add billions of dollars to the already massive welfare expenditures. The reform bill sponsored by House Democrats would raise government spending by requiring all states to provide benefits to eligible two-parent families and by setting higher Federal reimbursement rates for states that raise benefits. If a state decides to give more money to welfare clients, the Federal government's costs would automatically rise. Moreover, the House bill would allow recipients to remain on welfare by turning down certain low-paying jobs. Whenever they decide that welfare offered a better deal, recipients could continue on it. That does not sound like a powerful work incentive.

The Congressional Budget Office (CBO) has estimated that this bill would add $5.3 billion to Federal welfare costs over the next five years. This would be the in-

(Continued on page 4)

THE FRONT BURNER

By Robert C. Brown
President, Tax Foundation

"Blame It on Washington"

Even in the heyday of machine-style politics, no big city mayor ever had the temerity to run against his own city: James Michael Curley never went to Brookline to run against Boston. Richard Daley didn't head down to Cicero and run against Cook County.

Only Robert F. Wagner, Jr., came close to such brazen shifting of blame. He campaigned in the primary for his third term as mayor of New York City on a reform ticket.

Washington is different. Here, the connection between reality and rhetoric seems to grow more tenuous by the minute. The latest trend is for politicians of every stripe to wreak havoc on the nation during the legislative year and then run for reelection by blaming what they have wrought on the capital city itself, as if it were some sort of evil abstraction personified — a sort of marble and glass Frankenstein's monster.

The last two Presidents have each successfully campaigned as outsiders, attacking what "Washington" has done. The incumbent ran for reelection by attacking what "Washington" had done during his own first term in office. And he scored the second widest margin ever.

Who did what to whom, of course, is somewhat problematic, since members of Congress from both parties were also busily running against "Washington."

Because of such shenanigans, there are those who are beginning to think that calling our nation's capital "Disneyland on the Potomac" does a severe disservice to the great cartoonist. At least Walt Disney never pretended to be doing anything other than nurturing our childlike fantasies. Our nationally elected officials, arguably, are in another business: fostering the national well-being and promoting the common good.

The Spanish language has a handy, somewhat elliptical way of avoiding acceptance of responsibility. If you oversleep some morning, you don't tell the boss, "I'm late because I didn't get up on time." You say, "The clock made me late."

Public officials in Washington have put a new spin on such linguistic legerdemain. From foreign policy to tax policy, from budget cuts to honest cost projections of appropriations programs, no one wants to accept responsibility. "Washington" — whatever that means — did it. No individual is to blame. Of course, the problem is: If no one is responsible, then is anyone really in charge?

(WELFARE REFORM, *from page 3*)
creased amount of spending, not the full cost of welfare. CBO has cautioned that "these estimates are complex and uncertain," meaning that the added costs might turn out a lot higher. If they do, the Federal government would face additional uncontrollable costs because most of the increased benefits would be in the form of entitlements.

It was not long ago that "workfare"—the requirement that able welfare recipients take available jobs—was deemed a dirty word in some quarters. Now it is the centerpiece of efforts to overhaul the outmoded welfare system.

Will the results be different this time? There is more bipartisan support for reforming the welfare system than ever before. But past reforms were stymied by efforts to expand welfare benefits. It can happen again.

(PROPERTY TAXES, *from page 2*)

Slower Growth Per Capita

While total property taxes have risen by nearly 102 percent over the past decade—from $51.5 billion to $103.8 billion, the percentage growth in per capital property taxes has been less—80 percent, from $242 in 1975 to $435 in 1985.

Moreover, when related to personal income, property taxes have actually declined—from $45 per $1,000 of personal income ten years ago to $34 in 1985, or 24 percent.

Per Capita Trends

On a per capita basis, Wyoming (with collections of $1,101) and Alaska ($1,072) far outdistanced any other state. In third position was the District of Columbia ($727), followed by New Jersey ($717), and Connecticut ($703). States with lowest per capita collections were Alabama ($116), New Mexico ($150), Arkansas ($173), Louisiana ($176), and Kentucky ($182).

In terms of the decade's percentage rate of growth in per capita property taxes, Alaska, Wyoming, and the District of Columbia headed this list also, followed by Texas and South Carolina. Altogether, 22 states and the District of Columbia reported a doubling or more in per capita property taxes. The smallest increases were in California, Nevada, Missouri, Massachusetts, and Arizona. No state reported a decline in per capita property taxes between 1975 and 1985.

Per $1,000 of Personal Income

Property taxes per $1,000 of state personal income were highest in Wyoming ($90), Alaska ($64), Montana ($60), New Hampshire ($54) and Oregon ($53). The lowest property tax burdens by this yardstick were in Alabama ($12), Delaware and New Mexico ($15), Louisiana ($16), and Kentucky and Arkansas ($18). During the decade only three jurisdictions experienced increases in property taxes in relation to personal income—Alaska (up 100 percent), Wyoming (up 64 percent), and the District of Columbia (54 percent). In five states property taxes for the ten-year period remained unchanged as a share of personal income - Florida, Oregon, Pennsylvania, South Carolina, and Utah. The sharpest reduction in the taxes/income ratio occurred in California (down 52 percent), Massachusetts (down 48 percent), Nevada (45 percent), Missouri (44 percent), and New Mexico (37 percent).

State-by-state rankings of property tax revenue along with trends in property taxes for the 1975–1985 period, both per capita and per $1,000 of personal income, appear in a table that is available free of charge. For a copy please write or call: Tax Foundation, One Thomas Circle, N.W., Suite 500, Washington, DC 20005 (202) 822-9050.

TAX FOUNDATION
One Thomas Circle, N.W., Suite 500, Washington, D.C. 20005